

86<sup>th</sup> Legislative Session – 2011

Committee: Joint Appropriations

Monday, February 07, 2011

P - Present  
E - Excused  
A - Absent

Roll Call

P Sutton  
P Haverly  
P Heineman  
P Novstrup (Al)  
P Peters  
P Putnam  
P Rampelberg  
P Dennert  
P Wismer  
P Juhnke  
P Bolin  
P Romkema  
P Dryden  
P White  
P Tidemann  
P Carson  
P Brown, Vice-Chair  
P Wink, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Representative Dean Wink.

**Bureau of Administration**

**Mr. Paul Kinsman**, Commissioner of the Bureau of Administration, distributed the South Dakota Bureau of Administration Billing Rates (**Document #1**) and the Bureau of Administration FY2012 budget (**Document #2**).

The Bureau of Administration (BOA) is an agency that provides centralized services and products to the rest of state government. Some of the services and products include – office supplies, property management, surplus sale of state property, building and grounds, records management, and central supply. The cost of providing these services is paid for by the BOA using other fund expenditure authority and recovered from user agencies through monthly, quarterly, or annual billings. The BOA is not allowed to over-recover or under-recover. Adjustments are made quarterly as needed.

Commissioner Kinsman explained the space billing process. He referred the committee to page 1 of Document #1, which shows all the rates for each item billed to other agencies. For FY11, the billing rate for the buildings and grounds was \$11.78. The rate was decreased to \$11.28 for FY12. The reduction is essentially a reduction in utilities from BOA installing efficiencies – green light switches and thermostat controls. The space billing rate is a fully loaded rate which includes security services, use allowance, maintenance and repair budget, administration, custodians, grounds work around the capitol complex, and utilities.

Commissioner Kinsman discussed the BOA process addressing fleet and travel. The BOA buys vehicles from various sources – used vehicles from federal surplus or blocks of newer vehicles from a South Dakota dealer. The usage rate is determined by calculating per vehicle the cost for depreciation, insurance, and fuel. A list of all the rates per vehicle type is listed on page 4 of Document #1.

Senator Haverly asked if any state agency owns vehicles. Commissioner Kinsman responded that the only executive branch government agency that owns and maintains its own vehicles is the highway patrol. The Department of Game, Fish, and Parks and the Department of Transportation buys vehicles, but the BOA maintains them.

Senator Rampelberg asked if the reduction in operating costs for vehicles is a result of reduced miles traveled or from efficiencies. Commissioner Kinsman stated that the reduction is from the BOA purchasing used vehicles with low mileage at a discount from the federal government surplus. He noted that South Dakota has not purchased new vehicles for a couple years, and the BOA may have the opportunity to reduce the size of the fleet. However, to reduce the number in the fleet, the state needs to have a reduction in the total number of miles driven.

In response to Senator Haverly's question, Commissioner Kinsman stated that when people drive their own vehicles for work related business, there is a PEPL Fund issue for insurance coverage if a person gets into an accident.

Senator Tidemann asked if there is a process to determine when vehicles go on surplus. Commissioner Kinsman stated that most vehicles go to surplus when 100,000 miles is reached. However, the BOA looks at the age of the vehicle and the usage. Some vehicles that are driven less are switched with other vehicles that are used more for sustainability of the vehicles.

For FY2012, the Governor recommends a budget of \$34,047,483; comprised of \$4,127,101 in general funds, \$500,000 in federal funds, and \$29,420,382 in other funds; and 165.0 FTEs. This is a decrease of \$405,319 in general funds, \$2,439,297 in federal funds, and 8.5 FTEs from the FY2011 budget.

Administrative Services – The FY2012 recommended budget includes a decrease of 0.5 FTE and \$45,462 in other funds expenditure authority due to personal services reduction. The BOA will be reducing a full-time position to a part-time position and reducing the commissioner's salary by \$23,500. The budget recommendation also includes an increase of \$285 in general funds and a decrease of \$2,740 in other fund expenditure authority due to reduced operating expenses.

Sale/Leaseback – The state will be finishing the 30-year contract and will resume ownership of the state buildings from the South Dakota Building Authority in 2016. The payments are based on a payment schedule. For FY2012, the reduction of \$50,481 in general funds is needed for the annual lease payment.

Central Services – The recommended budget includes a reduction of \$41,487 in general funds and \$326,556 in other funds expenditure authority for operating expenses, a reduction of \$1,795,278 in other fund expenditure authority for reduced fleet purchases, and a reduction of 6.0 FTEs and \$199,672 in other fund expenditure authority due to personal services reductions. The positions that will be eliminated are:

- Buildings and grounds draftsman;
- Graphic designer in central duplicating;
- Duplicating print shop technician;
- Federal surplus property officer;
- Senior fleet claims clerk; and
- Supply inventory clerk.

State Engineer – For FY2012, the recommended budget includes a decrease of \$7,342 in other fund expenditure authority from reduced operating expenses and a decrease of \$59,469 in other fund expenditure authority for reduced personal services. Commissioner Kinsman said that since the executive branch of government will not be building many buildings in the next couple years, the BOA is able to eliminate a building engineer position.

Commissioner Kinsman stated there is a request to cut general funds for the capitol complex and the statewide maintenance and repair (M&R) list. The BOA has worked on some of the items on the list, but there is currently about \$40 million in unfunded M&R projects on the list. The list is prioritized by health and safety issues. To address Governor Dugaard's concern that the state is spending the M&R funds wisely, a third item was added to the matrix – energy efficiency. The additional matrix item will help to show which projects will save the most money in the future.

Senator Haverly asked about excess funds for central services reverting to the general fund. **Mr. Jim Neiles**, Finance Officer, stated that the space billing rate is adjusted on a quarterly basis to keep fairly accurate. At the end of the year, some accounting things need to occur and the reporting for the space billings starts with the rollover from the previous year. Any additional funds that are rolled-over are included in adjustment to the agencies space billing rates. The BOA is only able to receive in funds the same amount it billed for allowable services.

Office of Hearing Examiners – The recommended budget for FY2012 includes a general fund decrease of \$50,255 for operating expenses in contractual services.

PEPL Fund Administration - The recommended budget for FY2012 includes a decrease in other fund expenditure authority of \$2,778 for reduced operating expenses and a decrease of 1.0 FTE. Commissioner Kinsman stated that the position of the Executive Director of the PEPL Fund is being eliminated. The position will be transferred to the PRCF and Commissioner Kinsman will be taking on additional responsibilities for the PEPL Fund with the assistance of existing staff.

Senator Brown asked if the budget cuts are sustainable beyond FY2012. Commissioner Kinsman stated the budget cuts are sustainable if the needs of government don't change. At some point, the state will need to decide an appropriate time to buy new vehicles and update the fleet because decisions to the fleet are more temporary than sustainable.

Senator Sutton asked about the BOA's total general fund decrease of 8.9% when the Governor's request was a 10% reduction from all agencies. Mr. Neiles responded that the BOA makes payments on two sale/leasebacks with general funds. These sale/leasebacks were budgeted \$1,180,140 in general funds in FY2011 and will be reduced to \$1,130,048. The \$50,091 reduction is based on the payment schedule.

Representative Wismer asked about the reduction in capital outlay when purchases have not been made for three years. Mr. Neiles said that although purchases have not been made, the authority remained in the budget. The BOA is trying to determine how long to postpone purchasing new vehicles.

In response to Senator Tidemann's question about buildings that are scheduled to be torn down, Commissioner Kinsman stated that certain Human Services Center buildings in Yankton are still on the M&R list to be demolished. However, due to budget constraints, unless the building poses health and safety issues, it is not considered a high priority item on the M&R list. The engineer has estimated the total cost to tear down the building to be \$3.8 million.

Distributed was the statewide M&R list (**Document #3**).

**Bureau of Personnel**

**Ms. Sandra Zinter**, Commissioner of the Bureau of Personnel (BOP), introduced the staff present at the meeting – **Ms. Mary Keeler**, Accounting Manager; **Mr. Kevin Forsch**, Director of Compensation and Agency Support; **Mr. Denny Studer**, Director of Employee Benefits; and **Mr. Larry Kucker**, Risk Pool Manager.

For FY2012, the Governor recommends a total budget of \$14,952,257; comprised of \$871,787 in general funds, \$500,000 in federal fund expenditure authority, and \$14,580,470 in other fund expenditure authority; and 69.5 FTEs. This is a decrease of \$99,162 (10.2%) in general funds, \$559,178 (4.0%) in other fund expenditure authority, and 1.0 FTE from the FY2011 budget.

Personnel Management and Employee Benefits – For FY2012, the recommended budget is \$5,458,626; a decrease of \$586,653 from the FY2011 budget. The recommendation includes:

- A general fund decrease of \$15,000 in personal services, a decrease in other fund expenditure authority \$121,944 in personal services, and a decrease of 1.0 FTE. The reduction includes the salary decrease for the commissioner and for the eliminated FTE;
- A decrease of \$600 in general funds and \$19,200 in other fund expenditure authority for in-state and out-of-state travel;
- A decrease in general funds of \$2,000 and in other funds of \$341,000 for contractual services:
  - \$80,000 – leadership training;
  - \$184,000 – medical consultant to perform flu shots for health plan members;
  - \$20,000 – workshop registration fees;
  - \$35,000 – computer services
  - \$22,000 – training consultants;
  - \$600 – equipment rental; and
  - \$1,400 – meeting room rental.
- A decrease in general funds of \$8,400 and in other funds of \$45,600 for supplies and materials:
  - \$11,400 – office education and supplies;
  - \$10,000 – medical supplies for flu shots to health plan members;
  - \$8,200 – printing costs;
  - \$24,000 – postage; and
  - \$400 – procurement card costs. and
- A decrease in general funds of \$2,060 and in other fund expenditure authority of \$30,849 for the reduced costs regarding BIT billings, space billings, and central service billings.

In response to Representative Wink's question, Commissioner Zinter said the reduction in 1.0 FTE was a filled position when the budget process started, but after discussions the person has taken another job in the private market.

South Dakota Risk Pool – For FY2012, the recommended budget is \$7,993,631; a decrease of \$71,687 from the FY2011 budget. The recommendation includes:

- A general fund decrease of \$71,102 for operating expenses regarding insurance claims in the Risk Pool; and
- A decrease in other fund expenditure authority of \$585 for the reduced costs regarding space billings and central service billings.

Representative Wink asked if the changes have an impact to the employees benefit package. In response, Commissioner Zinter stated that the only aspect of the benefit package that will be changed is the elimination of the flu vaccination. The state spent about \$150,000 in the last two years for administering the flu vaccine.

Representative White requested the agency provide the percentage of benefits for each FTE last year.

Representative Wismer asked about the reduction of \$71,102 for the Risk Pool. Commissioner Zinter stated that when the South Dakota started in 2003, \$1.5 million was placed in reserve and is annually appropriated to the Risk Pool. The reduction is not excess general funds, because the funds are used for claim payments. The BOP will spend down the remaining balance of general funds and other sources of funds will need to be used for the remainder of the claim payments.

Representative Carson asked about the number of people participating in the Risk Pool. Commissioner Zinter said that the number of participants have fluctuated over the past seven years that the plan has been in existence. Distributed to the committee was the "South Dakota Risk Pool Fiscal Year 2010 Annual Report" (**Document #4**). There were 632 members in the Risk Pool at the end of FY2010 and now has about 640 members. The average length of time a person is a member of the Risk Pool is three years.

In response to Representative Juhnke's question pertaining to midpoint and job worth, Commissioner Zinter said that about two to three years ago, the BOP began looking at professions that the state is having difficulty in recruiting – accounts/auditors, nurses, engineers, scientists, and IT/programming development. The pay guidelines with the state pay system were not able to keep up with the market in those areas. Therefore, the BOP created career band pilot plans in those five areas. This is a different pay system than the current state pay system where there is no movement to job-worth. The pay for the positions will be reviewed on an annual basis to determine the job market worth.

Senator Putnam asked about new people hired on the state system being hired at a higher salary than current employees due to the current budget and pay freeze. Commissioner Zinter commented that the problem arises when an employer does not have additional funds to provide for a salary policy increase. When an agency hires a new employee, the BOP tries to keep the salaries of current employees in perspective with the new hires. Sometimes, small adjustments with current staff are needed to be made. However, the goal is to hire a new person at a lower pay than the current employees.

In response to Senator Putnam's question, Commissioner Zinter responded that with the hiring freeze and the current budget recommendation of a 10% budget cut, the agencies have reviewed the budgets and are making various cuts including FTEs and salaries.

Representative Dennert requested that the BOP provide a couple examples of how the pay freeze is effecting future retirement of employees.

Senator Rampelberg asked about a pay increase for an employee after probation. Commissioner Zinter said that an employee is on probation for six months after being hired. After the probation period, the agency usually is able to give the new employee the 5% pay increase at that time.

Representative Wismer asked about the budget for the state health plan. Commissioner Zinter stated that the BOP is not requesting additional funds for state employees. The BOP engaged in a new contract with providers and the only changes are for pharmaceuticals and the copayment for chiropractor visits will increase from \$30 to \$35.

### **Department of Revenue**

**Mr. David Wiest**, Interim Secretary and Joan Serfling, Administrative Services, met with the Committee to discuss the Department of Revenue's FY12 budget request. Document No. 5 was distributed.

The department's FY12 recommended budget consists of \$954,692 in General funds and \$58,911,149 in other funds for a total request of \$59,865,841. This request is a decrease of \$2,658,322 over the FY11 budget of \$62,524,163. Over \$33 million of the FY12 recommended budget is for Lottery Retailer Commissions, Lottery Prizes and gaming revenues distributed pursuant to SDCL 42-7B-48 and 42-7B-48.1.

Funding in this request reflects a decrease of \$187,919 in General funds, a decrease of \$2,470,403 in other funds and a decrease of 7.1 FTEs from the FY11 budget.

Changes to the budget request include:

- A decrease of \$331,209 and 7.1 FTEs in Personal Services.
- A decrease of \$85,108 in Travel reflecting restrictions on out-of-state travel and limiting in-state travel.

- A decrease of \$935,906 in Contractual Services is largely due to reductions in BIT development needs and includes decreases in internal billing charges, savings gained by moving the nightly video lottery polling from telephone lines to T1 lines and decreases to reflect actual contractual service expenditures.
- A decrease of \$1,283,140 in Supplies and Materials includes a reduction of \$1,055,640 in the amount budgeted for 2011 license plate issuance, \$100,000 savings for Instant and On-Line Operations and other reductions that reflect the department's promotion of electronic communications and electronic filing and payment of taxes and fees decreasing postage and printing costs.
- A decrease of \$22,959 in Capital Assets.

As a result of the Governor's Executive Reorganization, the following divisions are moving out of the Department of Revenue:

- The Governor recommends moving the Financial Services Division including Banking, Securities, and Insurance to the newly named Department of Labor and Regulation. In addition, the Governor recommends moving the Board of Abstract Examiners, Real Estate Commission, and the Appraiser Program to the Department of Labor and Regulation.
- The Governor recommends moving the Petroleum Release Compensation Division to the Department of Environment and Natural Resources.
- The Governor recommends moving the Insurance Fraud Prevention Unit, excluding the division's assessment authority to the Attorney General's Office.

Mr. Wiest told the Committee the department has used technology to implement many changes which allows for FTE and budget decreases in the FY12 recommended budget. The new tax system, titles and registration system and IFTA/IRP system have allowed many time consuming processes to be automated. The systems have robust reporting and analytical capabilities that enhance the department's educational efforts, tax discovery, collection activity and audit focus. This allows the department to use human resources more effectively and efficiently. In addition, technology has also allowed the department to recognize decreases in operating costs for the nightly polling of video lottery machines by converting from telephone lines to T1 lines.

The department also promotes the many electronic options available to the taxpayers and citizens of the state which reduce postage and printing costs and offer conveniences to the users.

In regard to the department's use of General funds, Mr. Wiest said the department does not plan to stop any significant activities. Activities conducted by the department are directed toward administration and application of tax laws in a fair and equitable manner, operation of the state lottery and regulation of the gaming industry. These functions are critical to the collection of revenues necessary for the operation of state and local governments.



By the end of FY11 IFTA/IRP filers will be able to file and pay electronically. The department is also working with programmers of the tax system to develop an electronic filing system for motor fuel licensees and to establish a portal for department tax licensees. When completed, this portal will provide a payment module as well as allow taxpayers to access their account and print a number of forms specific to their license. This portal, if utilized by taxpayers, could greatly reduce printing and postage costs for the department.

Taxpayer education is not a new activity, but always a focus of the department. The new tax system can easily provide data on specific business and industries and tax applications that are causing problems for the taxpayers. Analyzing this information allows the department to focus education in the areas that will be most beneficial to the taxpayers.

#### Secretariat Division

Mr. Wiest told the Committee the department is eliminating a total of 7.1 FTEs. One FTE is in the Secretariat Division amounting to a \$30,000 decrease in General funds. In addition there is a decrease of \$128,831 in Contractual Services of which \$102,000 was for the development of the Capturing Efficiency & Data Accelerating Revenues (CEDAR) System.

Mr. Wiest said two areas of the department utilized General funds in past years, the Secretariat Division and the Property and Special Taxes Division. All General funds were removed from the Secretariat Division and replaced with other funds in the FY12 budget request. Representative Dennert asked if the shift in funds was sustainable; Mr. Wiest said yes.

#### Business Tax Division

As a result of efficiencies found with the new CEDAR System, 2 FTEs will be eliminated in the Business Tax Division. The eliminated positions involve 1 full-time and 2 full-time that will become part-time. In response to Representative Wink's question, Ms. Serfling said all positions are currently filled.

Senator Tidemann asked for the current dollar amount coming in on streamlined sales tax. Mr. Wiest \$1,157,869 was collected in FY10, \$589,000 in FY09, \$1.3 million in FY08, and \$800,000 in FY07 and to date this fiscal year the state has collected \$622,000.

Senator Haverly asked for a report on the streamlined sales tax and reminded the Committee that this activity is not mandatory. Representative Wink asked what amount South Dakota would receive if this activity was mandatory. Mr. Wiest said according to a study done by the University of Tennessee, if Congress passes the Main Street Fairness Act, South Dakota's estimated revenue would be \$18 million. The Committee was advised that when streamlined sales tax comes on line, South Dakota will have to compensate those involved in the system. The compensation rate is based on how complicated the state's tax system is, and at this time Mr. Wiest is not sure what that amount would be.

Motor Vehicles

The department is proposing to eliminate 3.1 FTEs in the Division of Motor Vehicles at a savings of \$99,372. Through the South Dakota Customized Automated Registration System (CARS), the department has found a number of efficiencies, including turn-around time for issuing car titles. The department is also working through its CEDAR system for motor fuel tax collections through the International Fuel Tax Agreement (IFTA). In addition the department has completed its International Rate Plan (IRP) computer system. This system keeps track of large trucks traveling through various states to make sure the motor vehicle registration fees are properly accounted for in the various states.

Mr. Wiest said a large part of the \$518,000 reduction in Contractual Services is because the department has now completed development of the new title and registration system and the motor fuel tax system amounting to \$475,000.

The \$1,055,640 reduction in Supplies & Materials is because the department will not be producing license plates in FY12. Representative Wismer asked if there had been a similar reduction in FY11. Ms. Serfling said the reduction in FY11 was approximately \$2 million. A new license plate issuance costs between \$4-5 million and any funds not expended from the license plate revolving fund revert back to local governments.

Property and Special Taxes

Mr. Wiest explained that despite being fully funded by General funds, the department did not make substantial reductions in this division. This division's work is critical to the collection of revenues necessary for the operation of state and local governments. Senator Tidemann asked for information on the SDSU contract. Mr. Wiest said because the data needs to be updated each year, the SDSU contract is ongoing. In response to Senator Heineman's question, Ms. Serfling said carryover for this contract was taken, in part, from the Property Tax Division as well as the Secretariat Division. The department has funding authority for 2 years.

Representative Wismer questioned the reduction to the assessor's school. Mr. Wiest said that while the department funding is being eliminated, the training will continue. Representative Dennert asked if the cost was being shifted to the counties. Mr. Wiest said the directors of equalization already pay registration fees to attend the training sessions.

Senator Novstrup commented on the differences in assessments in Brown County. Mr. Wiest said this was a very complex issue and that there is a committee reviewing this issue.

Division of Audits

The department is proposing a reduction of 1.0 FTE, a Motor Fuel Tax auditor. Mr. Wiest said they feel the audits can be completed by other auditors.

Lottery Division:

Instant and On-Line Operations:

The largest portion of the \$113,000 reduction in Supplies & Materials includes a \$100,000 savings on a new printing contract.

Video Lottery: The \$64,373 reduction includes \$50,000 in the method used to communicate with the video lottery terminals. The state central system needs to communicate with the video lottery terminals every day to ensure the terminal is running properly and to collect data. In the past the communication was by telephone line and is now done with T1 lines. Representative Wink asked the department to provide additional information regarding the varying amounts in Supplies & Materials since FY09.

Senator Haverly asked about the \$45,000 decrease in Personal Services in Video Lottery. Mr. Wiest said new employees are often paid less than former employees and this reduction will align the budget with historical expenditures. The funds are other funds and not General funds.

#### Commission on Gaming – Informational Budget

In an attempt to reduce expenditures the department is going to try to have 2 part-time racing stewards with a 3<sup>rd</sup> steward only on race days. This will result in a \$16,031 reduction. The remaining reductions involve reductions in travel, workshop fees and in internal service expenditures.

Senator Heineman asked if there were other areas in the department where the use of technology would help the department do a better job of serving the public. Mr. Wiest said one of the benefits of SDCARS was the ability to provide a quick turn around on titles and liens, something the motor vehicle dealers have wanted for sometime. In addition, internet renewals are now available to the general public. The latest numbers show 42,720 on-line renewals (3.25% of the total vehicles registered) and Minnehaha County has the largest number of internet renewals. Mr. Wiest said the department's auditors are now doing paperless audits, scanning documents versus making copies, helps speed up the process.

In addition, the department is promoting electronic filing and paying which some businesses like. Approximately 22.5% of the sales use and contractor's excise tax returns are filed electronically and 60% of the actual tax receipts are filed electronically. The department continues to try and do more motor fuel tax system work electronically.

Representative Wismer requested information on the plate with owner system. Mr. Wiest said the plate w/owner system, which allows the owner to keep his license plate when changing vehicles, was implemented last year. A new computer system was designed to do provide this service and that system also enables the department to do more searches. In addition, the SDCARS system allows the motor vehicle dealers to put title information on-line. Currently there are approximately 311,000 titles on-line. This saves time for the County Treasurer and the public when registering a vehicle. The department is currently working on a self-service terminal in Rapid City.

Representative Dryden asked about implementation of the streamlined sales tax. Mr. Wiest said the state of South Dakota can not impose its state sales tax on an entity that does not have nexus with South Dakota. That is based on a United States Supreme Court decision and after that case a number of states tried to work together to streamline their tax laws, definitions and etc. They also worked to come up with a computer system that could figure out the appropriate tax rate. The next step was to get authority from Congress to collect the tax. Mr. Wiest said the department has no idea when Congress will act on this issue.

Senator Putnam asked if audits are done electronically when the sales tax is remitted and collected electronically. Mr. Wiest said people file and pay using the SD QUEST (Quick, East, Secure Tax Filing) system. The electronic return is filed and is basically the electronic version of a paper return and the method of auditing does not change. However, the auditors are doing more desk audits. Depending on the depth of the audit, most of the auditors do their work in their office and not in the field.

MOTION: TO APPROVE THE MINUTES OF JANUARY, 14, 2011

Moved by: Dryden  
Second by: Haverly  
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF JANUARY 18, 2011

Moved by: White  
Second by: Haverly  
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF JANUARY 21, 2011

Moved by: Romkema  
Second by: Dryden  
Action: Prevailed by voice vote.

MOTION: ADJOURN

Moved by: Rampelberg  
Second by: Dryden  
Action: Prevailed by voice vote.

Barb Bjorneberg and Lisa Shafer  
Committee Secretary

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Dean Wink, Chair